

SOCIAL INVESTMENT FUND

(EC-0203)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Ecuador	
Executing agency:	Emergency Social Investment Fund (FISE)	
Amount and source:	IDB: (OC IFF)	US\$40,000,000
	Local:	US\$ 5,000,000
	Total:	US\$45,000,000
Terms and conditions:	Amortization period:	25 years
	Grace period:	4 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars drawn from the Single Currency Facility
Objectives:	The general objective of this program is to improve living standards among the country's poorest population segments by bringing them into the network of basic social services and strengthening their social capital.	
Description:	FISE-III will continue to support the country's poor communities through basic social infrastructure projects, with activities based on five fundamental pillars: (i) project financing in a context of more comprehensive community development aimed at achieving a greater impact on living standards among the target population; (ii) a strong emphasis on strengthening management capacity in beneficiary communities; (iii) targeting on the poorest parishes, and ranking of communities based on criteria of cohesion and degree of local commitment; (iv) strengthening of works sustainability by ensuring broad community participation throughout the project cycle; and (v) institutional management that puts financing and community participation ahead of works execution.	

The program will have the following components:

Strengthening of community organization and management capacity. Funding will be provided for training, technical assistance and support activities in 500 communities living in the country's 220 poorest parishes, aimed at creating or strengthening their capacity to self-manage their own social development.

Basic social infrastructure projects. The program will finance approximately 475 social projects prepared by the communities (primary schools, basic healthcare centers, day-care centers for the under-sevens, old-people's centers, small-scale potable water and basic sanitation works, and small-scale works to refurbish or upgrade mule tracks or rural roads). The average value of each project is US\$72,000. About 40% of the projects will finance social works in indigenous communities and around 10% will benefit Afro-Ecuadorian communities.

FISE institutional strengthening and adaptation. The program will finance the process of adapting FISE's operating structure and management to the objectives, emphasis and new requirements of the proposed operation. Funding will be provided specifically for staff training, along with technical assistance to develop institutional capacities for coordinating with other national or local mechanisms engaged in the fight against poverty, the provision of equipment to strengthen institutional capacities in the areas of project monitoring and supervision and the internal information system.

Program monitoring and external evaluation. From the outset of the program, funding will be provided for continuous monitoring, supervision and external evaluation of the program's actions and impacts, in order to provide permanent feedback to FISE and the Bank on the progress of the operation. A final evaluation will also be performed to measure the program's impacts.

**The Bank's
country and
sector strategy:**

The Bank's strategy in Ecuador has the following aims: (i) economic stabilization and recovery of growth capacity; (ii) poverty relief, human-capital formation and social inclusion; (iii) efficient management of infrastructure with private-sector participation; (iv) State modernization and decentralization, and promotion of sustainable regional development. The poverty alleviation goal emphasizes the restoration of social spending, better targeting, social inclusion of indigenous and Afro-Ecuadorian populations, support for primary education, modernization of training services and strengthening of social security among peasant populations. FISE has become a tool for promoting such objectives in poor and remote areas that lack basic social infrastructure.

Environmental and social review:

This operation qualifies both as a social-equity enhancing project and as a poverty-targeted investment. The beneficiaries of the proposed operation will be communities living in the poorest 20% of the country's parishes. These are predominantly rural and located in remote areas.

No significant environmental impacts are anticipated. Community civil works are small-scale, and they will include measures to avert or mitigate potential negative impacts on the environment. FISE possesses environmental management tools, which will be adapted in line with the new third-stage program approach; community training and technical assistance actions will be intensified to ensure best use is made of them. As regards gender equity, existing training instruments will be strengthened, and the new ones proposed in the technical assistance and community management capacity strengthening component will stress gender-related aspects. Statistics on the program's actions will include gender variables.

Benefits:

The program will benefit 500 communities living in the 220 poorest parishes in the country. Of these, 89 parishes belong to indigenous ethnic groups and 20 to Afro-Ecuadorian communities. The program will promote better living standards among the poorest population segments in rural and isolated areas, while also mitigating the racial exclusion suffered by indigenous and Afro-Ecuadorian communities.

Support and technical assistance actions will develop and/or strengthen communities' management capacities, increase their social capital and provide them with tools, knowledge and contacts to enable them to take charge of their social development, on the basis of their own initiatives.

The use of community executing units to implement basic social infrastructure works will encourage works designs that are better adapted to community needs; it will also help reduce construction costs, ensure transparency in resource use, encourage greater use of local labor and materials, help strengthen community management capacity, and enhance the sustainability and impact of the projects concerned.

Risks:

The risks that could affect program implementation include politicized and non-transparent resource allocation, poor coordination and inconsistency with activities undertaken by other social sector institutions, and delays in the works component.

The following steps will be taken to ensure transparency in the Fund's actions: (i) civil-society representatives will serve on the Fund's consultative committees (national and regional); (ii) actions will be targeted on the country's 220 poorest parishes, using poverty maps; (iii) community projects will be selected and approved on a competitive basis; and (iv) beneficiary communities will participate in all stages of the project cycle. In addition, independent firms will be hired to continuously monitor and evaluate the program.

The following steps will be taken to minimize the risk of overlapping activities or dis-coordination with other entities: (i) review and adjustment of existing intra-institutional agreements in the light of the FISE-II experience; and (ii) close collaboration with the recently established Social Front, whose technical secretariat is responsible for coordinating all government actions in the social sector.

To minimize the risk of delays in executing the civil works, the component on community training and technical assistance includes a set of actions to be carried out by NGOs or local consulting firms with experience in community work, aimed at training communities in project management and providing them with permanent technical assistance throughout the community project cycle, from the design stage through works maintenance. FISE will also check that works are completed on time. This will not only ensure the timely execution of basic community social infrastructure projects, but also strengthen communities' capacity to take charge of their own development.

**Special
contractual
clauses:**

The borrower, acting through FISE, will satisfy the following conditions precedent to disbursement: (a) implementation of the program's Operating Regulations by the FISE management board (paragraph 3.28); (b) implementation of the new FISE structure, including organization chart, definition of functions and the number of consultants and employees envisaged for that structure, through a resolution issued by the Fund's management board (paragraph 3.3); (c) start of the process to hire external evaluation bodies, through an invitation to tender (paragraph 3.24); and (d) implementation of adjustments to accounting, financial management and internal resource control systems, under the new execution approach (paragraph 3.30). Once these conditions have been satisfied, disbursements will begin in the following components: community management capacity strengthening, FISE institutional strengthening, program monitoring and external evaluation, along disbursements relating to management expenses.

To initiate disbursements in the social infrastructure project component, the FISE management board will issue a resolution

adopting the new execution setup defined in this program for executing other projects with alternative financing. This entails the following: (a) FISE acts as a financing and supervisory body; (b) communities are responsible for works execution, unless indicated otherwise in the program; (c) communities receive technical assistance, training and supervision for works execution and sustainability; and (d) technical assistance and supervisory activities are outsourced (paragraph 3.25).

Poverty-targeting and social sector classification:

This operation qualifies as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). It also qualifies as a poverty-targeted investment (PTI) (see paragraph 4.6). The borrower will be making use of the 10 percentage points in additional financing (see paragraph 2.15).

Exceptions to Bank policy:

None

Procurement:

The limits applicable to Ecuador for goods and services procurement and civil works contracting are US\$250,000 and US\$3 million, respectively; but the program does not envisage works of this magnitude. Tendering for amounts below these limits will conform to national legislation. The program's consulting services will be hired in accordance with Bank procedures, as laid down in Annex C of the loan contract.